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INFO RUEHUL/AMEMBASSY SEOUL 2879
RUEHBJ/AMEMBASSY BEIJING 5700
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RUEHML/AMEMBASSY MANILA 1424
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RUEATRS/DEPT OF TREASURY WASHDC
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STATE PASS OPIC FOR LOREN RODWIN
STATE PASS TDA AND EXIMBANK
STATE FOR EAP/CM AND EB/IFD/OIA
TREASURY FOR TTYANG AND FINCEN
TREASURY FOR USEDS TO WORLD BANK, IMF
MANILA AND LONDON FOR USEDS TO ADB, EBRD

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TAGS: [EINV](#) [ECON](#) [OPIC](#) [PGOV](#) [MG](#)

SUBJECT: POST'S RESPONSE RE INVESTMENT GUARANTY TO CALVERT SOCIAL
INVESTMENT FOUNDATION FOR MONGOLIAN MICROFINANCE INSTITUTIONS KHAN
BANK AND KHAS (XAC) BANK

Ref: STATE 00103089

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11. (SBU) Post has the following response to OPIC's request for background information regarding the two possible Mongolian microfinance institutions (MFI) Khan bank and Khas (hereafter using local spelling "Xac", but pronounced "khas") bank. First, to post's knowledge neither Khan Bank nor Xac bank has any ties to terrorism, money laundering, corruption, and violations of Mongolian or U.S. law.

12. (SBU) Both institutions have long and deep ties with the U.S Government. Formally owned by the Government of Mongolia (GOM) and insolvent, Khan Bank was rescued by a USAID-funded management team and restored it to financial health. Once restored, AID assisted with the privatization of Khan Bank to a Japanese-Mongolian joint venture, which has continued to manage the bank according to best practices. In addition to the Japanese-Mongolian owners, other investors in Khan Bank include Development Alternatives Inc. (DAI) and the International Finance Corporation (IFC). In a May 4, 2007, report on Khan Bank, Fitch Ratings rated the bank as "stable" with a B+ issuer default rating for both foreign and domestic debt.

13. (SBU) With its extensive 439+ branch system, Khan Bank is Mongolia's largest retail bank serving most of Mongolia's 2.6 million citizens in some way. Khan Bank's reach makes it an essential institution for distributing pensions, salaries, and other Government of Mongolia transfers to both an urban and rural constituency that has difficulty accessing the relatively small number of branches of Khan Bank's competition. In addition, Khan Bank's branch network makes it the ideal venue for business to business transactions throughout Mongolia.

14. (SBU) Xac Bank was once two separate institutions, the UNDP-funded Micro-Start Mongolia (MSM) and the USAID-funded Goviin Ekhlel, both organizations were specifically created with micro-finance in mind. Although funded by the UNDP, MSM was essentially privatized to a group of Mongolian NGO's who became shareholders and served as MSM's board of directors, under the supervision of western experts. As both organizations were dedicated

to micro-finance, it was argued that better results for shareholders and services for clients were more likely to be obtained if the two banks combined their resources and ceased competing for essentially the same customer base.

15. (SBU) Currently Xac Bank maintains a 66 branch network covering all of Mongolia's aimags (provinces), employing some 840 staff. At the end of the 1st quarter 2007, total loans amounted to nearly US\$56 million in loans to some 60,000 borrowers. Total deposits reached US\$41 million among 154,000 savings and current account holders. Foreign investors own 55% of the bank and include Mercy Corps, a US-based charity, Micro Vest, ShorCap, and Triodos. Moody's rated Xac Bank "Ba2" with a "stable outlook" for long and short term deposits in both foreign and local currencies.

15. (U) Point of contact: Senior Commercial Specialist Michael Richmond. RichmondMD@state.gov.

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